

RRB Financial Reports

The Railroad Retirement Board is required by law to submit annual reports and triennial actuarial valuations to Congress on the financial condition of the railroad retirement system, as well as annual financial reports on the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the Board submitted its 20th Actuarial Valuation of the railroad retirement system's assets and liabilities and a separate report on the rail unemployment insurance system.

The following questions and answers summarize the findings of these reports.

1. How much money is in the Railroad Retirement Board trust funds?

By the end of the 1996 fiscal year, the balance of the railroad retirement trust funds was almost \$15 billion, while the railroad unemployment insurance system held a balance of about \$137 million.

2. What was the overall finding of the 20th triennial actuarial valuation of the railroad retirement system's assets and liabilities?

The 20th triennial actuarial valuation was generally favorable and reflected an improvement over the last triennial valuation. This was due primarily to legislation enacted in August 1994 to extend on a permanent basis the transfer of certain income tax revenues to the Railroad Retirement Account. The 20th valuation concluded that, barring a sudden, unanticipated, large decrease in railroad employment, no cash-flow problems arise during the next 20 years. However, like other railroad retirement financial reports over the last decade, the valuation also indicated that the long-term stability of the system, under its current financing structure, is still dependent on future railroad employment levels.

Over the years, the main source of income to the railroad retirement system has been a payroll tax on railroad employment. The amount of income that the tax produces is directly dependent on the number of railroad employees covered under the system. Therefore, actual levels of railroad employment over the coming years will largely determine whether any financing changes are necessary to ensure the system's solvency.

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3. What methods were used in forecasting the financial condition of the railroad retirement system?

The 1997 valuation, which addressed the 75-year period from 1996 to 2070, projected the income and outgo of the railroad retirement system under three employment assumptions regarding future railroad employment. Projecting income and outgo under the three different assumptions, the report indicated actuarial surpluses under the optimistic and moderate assumptions with no cash flow problems during the 75 year projection period. An actuarial deficiency was indicated only under the pessimistic assumption; and, even under that assumption, no cash-flow problem arises until the year 2021.

4. Did the valuation of the railroad retirement system recommend any railroad retirement payroll tax rate changes?

The valuation did not recommend any change in the rate of tax imposed on employers and employees.

5. What were the findings of the 1997 report on the financial condition of the railroad unemployment insurance system?

The Board's 1997 railroad unemployment insurance financial report was also favorable, indicating that even as maximum benefit rates increase 40 percent (from \$42 to \$59) from 1996 to 2007, experience-based contribution rates are expected to keep the unemployment insurance system solvent except under the Board's most pessimistic employment assumption. Even then, projections show only a small, short-term cash flow problem, with quick repayment of the loan resulting from the shortfall, and the average employer contribution rate remains well below the maximum throughout the projection period.

6. What methods were used to forecast the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the period 1997-2007.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the unemployment insurance system's experience rating provisions adjusting contribution rates for employment declines, and its surcharge trigger for maintaining a minimum balance, ensure financial stability in the advent of adverse economic conditions.

7. Did the 1997 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.